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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 002721

SIPDIS

STATE ALSO FOR EUR/SE AND EB/CBED

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TAGS: [ECIN](#) [ENRG](#) [EPET](#) [ETRD](#) [SENV](#) [TU](#)

SUBJECT: TURKEY AS THE HUB IN THE EAST-WEST ENERGY CORRIDOR  
-- A PROGRESS REPORT

REF: A. ANKARA 1160

[1](#)B. BAKU 760

[1](#)C. ANKARA 1061

(U) Classified by Econ Counselor Scot Marciel for reasons 1.4  
(b) and (d).

[1](#)1. (SBU) Summary: Turkish officials say they continue to strongly support the East-West Energy Corridor and are positioning Turkey to become the transit hub for Caspian and Middle East natural gas to Europe. Turkey is pushing two pipeline projects to export gas to Europe and exploring options for new supply sources. MFA DDG for Energy Hakkı Akil stressed that European companies were eager to buy gas from Iran, and urged the U.S. to work with Turkey on developing alternative supply sources, such as Turkmenistan.  
End Summary.

BTC

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[1](#)2. (SBU) In recent months, BOTAS has taken a number of steps to get construction of the Turkish portion of the pipeline back on schedule, and its efforts appear to be paying off. MFA DDG for Energy Hakkı Akil told us that the most problematic stretch in the north will be back on schedule by July. BTC CEO Michael Townshend told Ambassador Edelman May 7 that he is much more optimistic about BOTAS getting back on schedule. He said a series of meetings among the BTC partners was "an eye-opening experience for BOTAS," which has adopted a better attitude about its responsibilities to complete the project on time. BOTAS Managing Director Bilgic told us that BOTAS had been acting like a client rather than a partner (ref a). Townshend said pipelaying operations look to be completed on schedule, but there remain some concerns about completing the four pump stations along the Turkish route. He also said that Turkey has not adequately trained the jandarma (federal police), who will provide security for the pipeline.

#### Natural Gas Pipelines

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[1](#)3. (SBU) Drawing on concerns voiced by Azeri Presidential Energy Advisor Asadov (ref b), Econ Counselor asked Akil about Turkey's support for pipeline projects to transport Caspian gas to Europe. Akil responded that the government's support remains strong as evidenced by Turkey's role in promoting two gas pipelines to Europe -- the Turkey-Greece Interconnector, which could include an extension to Italy, and the Nabucco project to bring gas from Turkey through southeast Europe to Austria. Akil pointed out that these projects could provide Europe with important alternatives to Russian gas, up to 30-35 bcm gas per year.

[1](#)4. (U) Turkey and Greece signed a Sales and Purchase Agreement in December 2003 calling for initial deliveries of 750 mcm beginning in 2006. But Turkey hopes to increase gas throughput to 11 bcm and is supporting the efforts of Greek national gas company DEPA and Italy's Edison Gas to build an extension to Italy.

[1](#)5. (U) The Nabucco Project would provide a second branch of the East-West Energy Corridor to Europe. In 2002, BOTAS agreed with OMV of Austria, MOL of Hungary, Transgaz of Romania, and Bulgargaz of Bulgaria to explore building a gas pipeline complex from Turkey to Baumgarten, Austria -- an important natural gas hub into the main European lines. The partners project that Europe will need between 25 and 30 bcm from the pipeline when it is completed in 2009.

[1](#)6. (SBU) Turkish officials tell us they want Turkey to be an energy hub, providing a fourth supply route (after North Sea, Russia and North Africa) for natural gas to Europe. However, Demirelek said Turkey is still pondering what kind of hub to become. In the case of Greece, Turkey operates as a

wholesaler -- Greece will buy its natural gas from Turkey. In the case of the Nabucco pipeline, the partners will operate as transit countries. European gas companies will contract directly with source countries like Azerbaijan and Iran, and pay Turkey and the other partners a transit fee.

17. (C) Our GOT contacts identified some obstacles to Turkey's goal to become an energy hub. Although Turkey currently has an oversupply of natural gas, Akil said Turkey will need to find additional sources of natural gas to fill the combined demand of the Greece/Italy and Nabucco pipelines, which he estimated at 30-35 bcm/year. Energy experts expect Turkey's energy consumption to increase significantly in the coming decade. Natural gas will grow fastest as more cities connect to the gas grid, reducing the widespread practice in Turkey of burning very dirty lignite. Akil pointed out that most of the new supply from Shah-Deniz will be used to satisfy this growing demand, leaving about 2-3 bcm available for export. He added that European gas companies are very interested in the prospect of buying gas from Iran, and suggested that Turkey will have a hard time opposing that pressure unless it can offer better alternatives. He said Turkey wants to explore feeding Turkmen gas into the Shah Deniz pipeline, and urged the U.S. to consider working with Turkey to promote this option. Energy U/S Demirbilek said Turkey is looking at other longer-term options, such as gas from Iraq, Syria, Qatar and Egypt.

18. (SBU) Demirbilek cautioned that Turkey needed to "get its domestic market in order" before it could enter into new export obligations connected to these projects. He said Turkey's Gas Market Law, which mandated the break-up of BOTAS's monopoly over natural gas, was impractical because no one could figure out how to unbundle state-to-state take-or-pay agreements. The implication was that this situation creates uncertainty about the future energy mix and demand in Turkey and about who will have the authority to enter into new supply contracts. Demirbilek wants BOTAS to remain the principle importer and exporter of natural gas; the Ministry has proposed appropriate amendments to the Gas Market Law.

#### Bypasses

19. (SBU) Closely related to the pipelines issue is rising oil tanker traffic bringing Russian and Caspian crude through the Turkish Straits to world markets. Turkish officials assert that traffic through the Straits is near its maximum safe level and are exploring options to encourage diversion of some of the oil through bypass pipelines. Last year, for example, the MFA asked for U.S. support to stop the GOU from agreeing to reverse the flow of the Odesa-Brody pipeline. Several bypass options have been proposed, including two in Turkey -- the first crossing Thrace west of Istanbul, and the second running from the Black Sea port of Samsun to central Turkey, where it will connect to an existing pipeline to the port of Ceyhan. The Thrace option appears to be the first out of the gate, but the Turkish government has held up a license to allow the company to proceed.

110. (C) In parallel, the MFA has been exploring with oil companies an agreement on Voluntary Principles, in which all the shippers would agree to use existing bypass pipelines and support construction of new bypasses to avoid further increases in Straits traffic. Akil said several of the oil companies have voiced support for the idea. However, Kjell Landin of Chevron-Texaco told us that, while several western oil companies have expressed support, in private they are reluctant to sign. He pointed out that Akil has not received support from the Russian shippers, which operate the most dangerous vessels. He said the Russians will be happy to see their western competitors bear the extra cost of using a bypass pipeline, freeing up more space for the Russian companies to use the less costly Straits. Landin added that the western companies are also concerned that although the Voluntary Principles would apply only to the special case of the Bosphorus, there would be heavy pressure to assume these standards for their operations world-wide, raising their operating costs.

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